PIERCE - Chairman **BOB STUMP** SANDRA D. KENNEDY PAUL NEWMAN **BRENDA BURNS**

OPEN MEETING ITEM





RECEIVED

ARIZONA CORPORATION COMMISSION

DATE:

OCTOBER 31, 2012

DOCKET NO .:

T-02063A-12-0302

7 CORP COMMISSION

2012 OCT 31 P 2: 36

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Opinion and Order on:

ARIZONA TELEPHONE COMPANY (RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

Company has waived the 10 days for filing of exceptions

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

TO BE DETERMINED

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602)542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

> Arizona Corporation Commission DOCKETED

> > OCT 3 1 2012

EXECUTIVE DIRECTOR

1200 WEST WASHINGTON STREET; PHOENIX, ARIZONA 85007-2927 / 400 WEST CONGRESS STREET; TUCSON, ARIZONA 85701-1347 www.azcc.gov

1 BEFORE THE ARIZONA CORPORATION COMMISSION 2 **COMMISSIONERS** 3 GARY PIERCE - Chairman **BOB STUMP** 4 SANDRA D. KENNEDY PAUL NEWMAN 5 **BRENDA BURNS** 6 IN THE MATTER OF THE APPLICATION OF DOCKET NO. T-02063A-12-0302 7 ARIZONA TELEPHONE COMPANY, AN ARIZONA CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE DECISION NO. COMPANY. THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, AND TO INCREASE RESIDENTIAL RATES AS 10 NECESSARY TO COMPENSATE FOR THE RATE IMPACTS OF THE FCC'S USF/ICC 11 TRANSFORMATION ORDER. **OPINION AND ORDER** 12 August 20, (Procedural Conference) and October 12, DATES OF HEARING: 2012 13 Phoenix, Arizona PLACE OF HEARING: 14 ADMINISTRATIVE LAW JUDGE: Teena Jibilian 15 Mr. Craig A. Marks, CRAIG A. MARKS, PLC, on APPEARANCES: 16 behalf of Applicant; and 17 Ms. Maureen A. Scott, Senior Attorney, Legal Division, on behalf of the Utilities Division of the Arizona 18 Corporation Commission. 19 BY THE COMMISSION: 20 On July 5, 2012, Arizona Telephone Company ("Arizona Telephone" or "Company") filed 21 with the Arizona Corporation Commission ("Commission") the above-captioned application. The 22 application states that it was filed pursuant to A.R.S. § 40-250 and Arizona Administrative Code 23 (A.A.C.) R14-2-103, to compensate for the rate impacts of the Federal Communication 24 Commission's ("FCC's") November 18, 2011 Universal Service Fund/Inter-carrier Compensation 25 ("USF/ICC") Transformation Order ("USF/ICC Transformation Order"). 26 27 FCC 11-161, Connect America Fund, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed

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Rulemaking, 26 FCC Rcd 17663 (November 18, 2011); pets. for review pending (10th Cir. filed Dec. 8, 2011).

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

- 1. On July 5, 2012, Arizona Telephone filed the rate application with the Commission.
- 2. On August 10, 2012, a Procedural Order was issued, indicating that pursuant to Arizona Administrative Code R14-2-103.B.7, the application was deemed accepted, and setting a procedural conference for the purpose of discussing a hearing on the application.
- 3. On August 20, 2012, the procedural conference was held as scheduled. Arizona Telephone and the Commission's Utilities Division ("Staff") appeared through counsel. Arizona Telephone reiterated its request, set forth in the application, that the Commission take expedited action on its application, and issue a Decision on the application prior to December 1, 2012, to prevent the Company from experiencing a reduction in its federal high-cost carrier loop support. Arizona Telephone also indicated that it had recently caused notice of the application to be published, and presented a copy of the published notice to the Administrative Law Judge. Following discussion regarding the need for a hearing in the event a hearing was requested by a potential intervenor, Arizona Telephone requested that a hearing date be set in order to avoid delay in processing its application. The parties also discussed an appropriate intervention deadline and a possible hearing date. Staff requested that it be provided an opportunity to docket its input on the required form of customer notice of the hearing.
 - 4. On August 24, 2012, Staff filed a Proposed form of Notice.
- 5. On August 29, 2012, a Rate Case Procedural Order was issued setting the matter for hearing and establishing associated procedural deadlines, including the mailing of notice of the application and hearing to all of Arizona Telephone's customers.
- 6. On September 24, 2012, Arizona Telephone filed its Certification of Mailing Notice, indicating that notice as ordered by the Rate Case Procedural Order was mailed to each customer of Arizona Telephone by first class U.S. Mail.
 - 7. No requests for intervention were filed.

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- On October 1, 2012, Staff filed a Request for a Two-Day Extension of Time to file its 8. Staff Report.
- 9. On October 3, 2012, Staff filed its Staff Report recommending approval of the application.
- On October 9, 2012, Arizona Telephone filed its Rebuttal Response, indicating that it 10. supports Staff's conclusions in the Staff Report.
 - On October 11, 2012, one public comment was filed in opposition to the rate increase. 11.
- On October 12, 2012, a hearing on the application was convened before a duly 12. authorized Administrative Law Judge of the Commission. Arizona Telephone and Staff appeared through counsel, presented testimony and evidence for the record through witnesses, and were provided an opportunity to cross examine witnesses. No members of the public appeared to provide public comment.
 - On October 16, 2012, Staff filed information on the USF/ICC Order. 13.
- On October 17, 2012, Arizona Telephone filed a late filed exhibit which had been 14. admitted during the hearing, consisting of a sample Arizona Telephone bill for basic telephone service.
- The matter was taken under advisement pending the submission of a Recommended 15. Opinion and Order for the Commission's disposition.

Arizona Telephone

- Arizona Telephone is an Arizona public service corporation engaged in the business of 16. providing telephone utility service to the public in portions of Coconino, Gila, Pima, Maricopa and Yuma Counties. The Company serves customers in its Sasabe, Hyder, Harquahala, Tonto Basin, Roosevelt, Blue Ridge, Mormon Lake, Greenhaven, Marble Canyon and Supai Exchanges. In its April 15, 2012, Utilities Annual Report, Arizona Telephone reported 2,036 residential lines and 770 business lines.
- Arizona Telephone is currently charging rates set by Commission Decision No. 60722 17. (March 23, 1998).
 - Arizona Telephone is a rate of return incumbent local exchange carrier ("ILEC") 18.

eligible to receive federal high-cost loop support ("FHCLS").

FCC USF/ICC Order

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- On November 18, 2011, the FCC issued the USF/ICC Order. The USF/ICC Order 19. provides for a transition from former federal universal service programs and most intercarrier compensation systems into a new Connect America Fund ("CAF"). In its USF/ICC Order, the FCC states that by July 1, 2020, intercarrier compensation rates for rate of return companies will be reduced to zero. The recovery from the CAF will phase out over time at 5 percent annually.
- 20. The USF/ICC Order adds new rules that will reduce FHCLS to carriers by the amount their flat-rate residential local service rates fall below a specified local service rate floor. The rate floor includes state subscriber line charges, state universal service fees, and mandatory extended area service charges, if any are assessed. The USF/ICC Order establishes those rate floors at \$10.00 as of June 1, 2012, and \$14.00 as of June 1, 2013, with the floor thereafter being determined annually by the FCC's Wireline Competition Bureau.²
- 21. As a recipient of FHCLS, Arizona Telephone is affected by the FCC USF/ICC Order. Under the USF/ICC Order, to continue receiving FHCLS, rural ILECs such as Arizona Telephone must increase their residential local rates to the FCC-mandated residential rate floors. Otherwise, the amount of FHCLS funds received will be reduced dollar-for-dollar for each customer by the difference between the existing local rate and the new rate floor.

Application

- 22. The application requests that Arizona Telephone be authorized to raise its residential local rates to the \$10.00 rate floor mandated by the USF/ICC Order to allow it to continue receiving FHCLS.
- 23. Arizona Telephone submitted the application, after consulting with Staff, in a "streamlined" form. The application and accompanying exhibits in support of Arizona Telephone's requested increase in residential rates are based on the year ending December 31, 2011.
 - 24. Arizona Telephone is in the process of preparing a full rate case application based on a

² Arizona Telephone is the only ILEC in Arizona with residential rates below \$10 receiving FHCLS.

recent test year.

- 25. The filing indicates total Intrastate Operating Income for 2011 of negative \$673,178 before taxes, and negative \$407,067 after taxes.
- 26. The filing indicates a total Arizona rate base of \$4,110,438, of which \$1,593,751 is interstate, and \$2,516,686 is intrastate.

Staff Recommendations

- 27. Staff states that it reviewed the application and the federal rule changes that prompted its filing. Staff states that it concluded that the costs appear reasonable and appropriate under the unique circumstances of this case, but that its recommendation should not be viewed as precedent for the processing of future rate case applications.
- 28. Staff states that for the purposes of this proceeding, Arizona Telephone stipulated to the use of original cost less depreciation ("OCRB") as the basis for a determination of its fair value rate base ("FVRB").
- 29. Staff reviewed and analyzed the filing, but did not perform a regulatory audit. Staff does not recommend that Arizona Telephone's rates be set based on a revenue requirement analysis.
- 30. Staff states that the annual revenue effect of Arizona Telephone's requested increase in local telephone service rates to \$10.00 would be \$18,409. Staff states that compared to Arizona Telephone's total revenues, any revenue impact from this rate increase would be small. Staff states that with Arizona Telephone's requested increase, operating income would remain negative, and that the rate of return would be less than zero, and not meaningful in this case.
- 31. Staff recommends that Arizona Telephone's monthly residence local exchange rate be increased to \$10.00 to address the impact of the USF/ICC Transformation Order. Staff states that it believes the requested increase is just, fair, and reasonable for the following reasons:
 - (a) The increase is necessitated by the FCC's November 18, 2011 USF/ICC Transformation Order;
 - (b) The increase is necessary to preserve the entirety of the FUSF funds that may flow to Arizona Telephone pursuant to the FCC's rules;
 - (c) The increase will minimize/reduce the amount of future rate increase; and

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- (d) The increase will allow Arizona Telephone to receive matching funds from the FUSF.
- 32. The Staff Report states that on October 3, 2012, the Records Section of the Corporations Division responded that Arizona Telephone is in Good Standing, and a review of Consumer Services database revealed that no complaints, inquiries and opinions were received pertaining to Arizona Telephone for the period January 1, 2009 October 2, 2012.
- 33. Staff states that a check of the Utilities Division Compliance Section database showed that Arizona Telephone is in compliance with all items.

Conclusions

- 34. According to the evidence presented, the rate increase request will not result in Arizona Telephone overearning on FVRB.
- 35. Under the particular circumstances of this proceeding, a rate of return analysis is not useful.
 - 36. Staff's recommendations are reasonable and should be adopted.
- 37. Under the particular circumstances of this proceeding, Arizona Telephone's rates for one-party access line service should increase from the currently tariffed rate of \$9.25 to \$10.00; Arizona Telephone's rates for four-party access line service should increase from the currently tariffed rate of \$7.83 to \$10.00; and all other currently tariffed rates should remain unchanged, in order to assure continued FUSF support for Arizona Telephone's services.

CONCLUSIONS OF LAW

- 1. Arizona Telephone is a public service corporation within the meaning of Article 15 of the Arizona Constitution and A.R.S. §§ 40-250 and 40-251.
- 2. The Commission has jurisdiction over the Company and over the subject matter of this proceeding.
 - 3. The Company provided notice of this proceeding in accordance with law.
 - 4. The Company's Arizona Intrastate FVRB as of December 31, 2011 is \$2,516,686.
- 5. Under the particular circumstances of this proceeding, a rate of return analysis is not useful.
 - 6. Under the particular circumstances of this proceeding, it is appropriate to increase

1	Arizona Telephone's rates for one-party access line from the currently tariffed rate of \$9.25 to				
2	\$10.00; for four-party access line service from the currently tariffed rate of \$7.83 to \$10.00; and t				
3	leave all Arizona Telephone's other currently tariffed rates unchanged, in order to assure continued				
4	FUSF support for Arizona Telephone's services.				
5	7. The rates and charges authorized herein are just and reasonable and promote the public				
6	interest.				
7	8. The Company should be directed to file revised tariffs showing the rates authorized				
8	herein.				
9	<u>ORDER</u>				
10	IT IS THEREFORE ORDERED that Arizona Telephone Company shall increase its rates and				
11	charges in accordance with the Findings of Fact herein.				
12	IT IS FURTHER ORDERED that such new rates and charges shall be effective for Arizona				
13	Telephone Company's billings on or after December 1, 2012.				
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1	IT IS FURTHER ORDERED that Arizona Telephone Company is authorized and directed to		
2	file, on or before November 30, 2012, revised schedules of rates and charges consistent with the		
3	Findings of Fact and Conclusions of Law contained herein.		
4	IT IS FURTHER ORDERED that this Decision shall become effective immediately.		
5	BY ORDER OF THE ARIZONA CORPORATION COMMISSION.		
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8	CHAIRMAN		COMMISSIONER
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10	COMMISSIONER	COMMISSIONER	COMMISSIONER
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12		IN WITNESS WHEREOF, I, Executive Director of the Arizona	a Corporation Commission,
13		have hereunto set my hand and ca	used the official seal of the
14		Commission to be affixed at the Capthisday of	2012.
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16		TRANSPORT OF VOLUME	
17		ERNEST G. JOHNSON EXCUTIVE DIRECTOR	
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19	DISSENT		
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DECISION NO. _____

SERVICE LIST FOR:	ARIZONA TELEPHONE COMPANY		
DOCKET NO.:	T-02063A-12-0302		
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